



October 22, 2012

Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve  
System  
20th Street and Constitution Avenue, N.W.  
Washington, D.C. 20551

Office of the Comptroller of the Currency  
250 E Street, SW  
Mail Stop 2-3  
Washington, DC 20219

Robert E. Feldman  
Executive Secretary  
Attention: Comments/Legal ESS  
Federal Deposit Insurance Corporation,  
550 17th Street, N.W.  
Washington, D.C. 20429

Ladies and Gentleman,

Much discussion has been given to the Basel III proposals<sup>1</sup> that were recently approved by the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation.

I write today on behalf of First State Bank Nebraska to voice the strongest of opposition to the aforementioned proposals.

First State Bank Nebraska is a community bank nestled in the southeast portion of our state. We are a premium blend of urban and rural banking and a leader in small business lending. The U.S. Small Business Administration has recognized us as the 2012 Nebraska Community/Rural Lender of the year. 130 employees and over a dozen communities depend on the well paying jobs we provide in 5 counties throughout Nebraska. During the Great Recession we have actually grown both in asset size and service area. Our growth can largely be attributed to a few things: loyal customers, self-less employees, responsible decision making and our ability to maintain healthy capital levels.



First State Bank Nebraska has a 100 year history of putting customers and community first. Local baseball fields, gyms, parks and festivals depend not only on our community involvement, but our economic development.

We have navigated these troubled waters responsibly and successfully. In the depths of the Great Recession we were able to rescue struggling banks and prevent them from being closed and their customers shut out. Our capital position, which afforded us the ability to purchase those banks, has been and continues to be strong. The proposed changes will likely hurt our ability to purchase banks. Simply put, I am troubled by your efforts to modify our capital calculation in such a way that our current financial footing and ability to grow would be severely crippled.

Our Chief Financial Officer has calculated the impact your proposal would have on First State Bank Nebraska; the details of that calculation can be found in Exhibit A attached hereto.

One of the starkest changes you will notice on the attachment is a projected reduction of our Tier 1 Capital by nearly 1 million dollars. Additionally, our Risk Weighted Assets increase almost 12 million dollars.

Currently our bank is well capitalized. We have not experienced any capital concerns. The fact our distinguished track record of conservative management and healthy capital could be suddenly manipulated to show a 1 million dollar capital reduction is alarming.

Under the new calculations the reduction in Tier 1 Capital would have to be addressed. Our ability to hire, grow and support our communities would be adversely impacted. Rural America is seeing post office closures, school consolidations and factory closings. In many towns our bank is the predominant employer. We have a desire and obligation to continue to grow this bank and hire employees. We have overcome much adversity in the past and are disheartened to see more being proposed.

I have read many of your comments that suggest the impact to community banks will be negligible, but after performing our due diligence, I am telling you first hand, the impact will be noticeable and adverse. While banks may be the target of your proposals I truly believe small businesses will be the victims.

Our Chief Investment Officer has also analyzed the Basel III proposals and their impact on our bond portfolio; the impact on our bond portfolio can be found in Exhibit B attached hereto.

A 300 basis point move in the bond market would reduce our capital ratios by 3 million dollars. It is essential for the bank to have Agencies available for sale so we can meet our liquidity needs. The sudden realized reduction in capital would require us to decrease loan volume or raise capital. A reduction in loan volume would be devastating to the small business customers that rely on us for financing.



Hindering our ability to make loans will reduce credit availability. Inaccessibility to credit will crush local economies and this anemic economic routine will proliferate.

In summary, you receive many letters; I thank you for taking the time to read mine. I hope this letter gives you an idea of the concern I have over your proposals, but equally important, I desire this note serve as an invitation for you to contact me should you seek additional information, questions or testimony.

You have a big decision looming on the horizon; one that will alter accounting and budgeting for every bank; I trust all due diligence is being done. Please, do not hesitate to reach out to me further. It is my duty to help you, to help you realize the harm these proposals will instill on the financial sector of this country and to respectfully ask you to refrain from inflicting that harm on the consumers and small businesses we finance.

Very Truly Yours.

A handwritten signature in dark ink, appearing to read "Thomas G. Damkroger". The signature is fluid and cursive, with a long, sweeping tail that extends to the right.

Thomas Damkroger  
CEO

First State Bank Nebraska

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<sup>1</sup> The proposals are titled: *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, and Transition Provisions; Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements; and Regulatory Capital Rules: Advanced Approaches Risk-based Capital Rules; Market Risk Capital Rule.*

## Exhibit A

Summary and Timeline							
FIRST STATE BANK NEBRASKA	13868	LINCOLN, NE				\$373,791	
Summary Estimates for Fully Phased-in Proposals (as of 2022) - Comparisons							
Dollar Amount (000)	Current Rules	Basel III Rules Only	Basel III and Standardized				
Common Equity Tier 1 Capital	n/a	\$34,269	\$34,269				
Tier 1 Capital	\$35,258	\$34,269	\$34,269				
Tier 2 Capital	\$3,387	\$3,387	\$3,387				
Total Capital	\$38,645	\$37,656	\$37,656				
Risk-Weighted Assets	\$270,983	\$269,382	\$336,919				
Average Assets	\$360,173	\$360,173	\$360,173				
				Basel III and Standardized RWA =			
				Standardized RWA			
				\$338,520			
				Plus Items Currently Disallowed/Neutralized			
				\$10,027			
				Less Basel III Adjustments			
				\$11,628			
				Total Combined RWA			
				\$336,919			
Regulatory Ratios	Current Rules	Basel III Rules Only	Basel III & Standardized				
Leverage Ratio	9.79%	9.51%	9.51%				
Common Equity Tier 1 Capital Ratio	n/a	12.72%	10.17%				
Tier 1 Capital Ratio	13.01%	12.72%	10.17%				
Total Capital Ratio	14.26%	13.98%	11.18%				
Phase-In Timeline Comparison with Minimums (including Capital Conservation Buffer beginning in 2016)							
Select Proposed Change(s) to Current Rules -->	Basel III and Standardized						
	2013	2014	2015	2016	2017	2018	2019
PCA Category	Well	Well	Well	Well	Well	Well	Well
Conservation Buffer Maximum Payout	n/a	n/a	n/a	No Limit	No Limit	No Limit	No Limit
Leverage Ratio	9.86%	9.79%	9.72%	9.65%	9.58%	9.51%	9.51%
Common Equity Tier 1 Capital Ratio	13.18%	13.09%	10.39%	10.32%	10.25%	10.17%	10.17%
Tier 1 Capital Ratio	13.18%	13.09%	10.39%	10.32%	10.25%	10.17%	10.17%
Total Capital Ratio	14.44%	14.35%	11.40%	11.32%	11.25%	11.18%	11.18%
Capital Conservation Buffer				3.32%	3.11%	3.18%	3.18%

# Agency Holdings

CUSIP	Security	Par Value (000)	Coupon	Maturity Date	Call Freq.	Next Call Date	Gain/Loss	Book Yield	Mat. Years	Call Years	Avg. Life (Yrs)	Eff. Dur.	MV +300bp (000)	MV -300bp (000)	Eff. Cnvx.
3133XVMG3	FEDERAL HOME LOAN BANK	\$1,000	1.760%	11/5/12	BULLET	None	\$1,173	0.83%	0.10		0.09	0.05	\$999	\$1,002	(0.082)
3133XGJ96	FEDERAL HOME LOAN BANK	\$500	5.250%	9/13/13	BULLET	None	\$9,089	2.01%	0.95		0.94	0.54	\$510	\$525	(0.760)
3133XSP93	FEDERAL HOME LOAN BANK	\$500	3.125%	12/13/13	BULLET	None	\$10,173	1.88%	1.20		1.19	0.69	\$500	\$519	(0.935)
3133XLDG5	FEDERAL HOME LOAN BANK	\$500	5.375%	6/13/14	BULLET	None	\$20,781	2.64%	1.70		1.69	0.98	\$517	\$545	(1.246)
3133XLDG5	FEDERAL HOME LOAN BANK	\$500	5.375%	6/13/14	BULLET	None	\$35,151	4.37%	1.70		1.69	0.98	\$517	\$545	(1.246)
313370JS8	FEDERAL HOME LOAN BANK	\$1,000	1.375%	9/12/14	BULLET	None	\$23,632	1.53%	1.95		1.94	1.18	\$964	\$1,025	(1.448)
313371PC4	FEDERAL HOME LOAN BANK	\$1,000	0.875%	12/12/14	BULLET	None	\$28,423	1.65%	2.20		2.19	1.35	\$948	\$1,017	(1.594)
313372LP7	FEDERAL HOME LOAN BANK	\$1,000	1.750%	1/29/15	BULLET	None	\$33,017	1.76%	2.33		2.32	1.42	\$965	\$1,039	(1.657)
3133XY5L5	FEDERAL HOME LOAN BANK	\$1,000	2.000%	5/6/15	ONETIME	11/6/12	\$1,843	1.99%	2.60	0.1	0.09	0.05	\$999	\$1,002	(0.084)
3133XCUS0	FEDERAL HOME LOAN BANK	\$2,000	4.750%	9/11/15	BULLET	None	\$83,257	1.78%	2.95		2.94	1.79	\$2,073	\$2,271	(1.896)
3133725D2	FEDERAL HOME LOAN BANK	\$1,000	2.125%	12/21/15	BULLET	None	\$57,446	2.25%	3.22		3.21	2.05	\$960	\$1,065	(2.004)
313374AX8	FEDERAL HOME LOAN BANK	\$2,500	2.000%	12/27/16	ONETIME	6/27/13	\$31,745	2.00%	4.24	0.74	0.73	0.42	\$2,345	\$2,535	(0.606)

We ask, listen and solve.



**Commerce Bank**  
Member FDIC



CUSIP	Security	Par Value (000)	Coupon	Maturity Date	Call Freq.	Next Call Date	Gain/Loss	Book Yield	Mat. Years	Call Years	Avg. Life (Yrs)	Eff. Dur.	MV +300bp (000)	MV -300bp (000)	Eff. Cnvx.
313378CX7	FEDERAL HOME LOAN BANK	\$1,000	1.500%	2/23/17	ONETIME	8/23/13	\$3,408	0.57%	4.40	0.9	0.89	0.77	\$918	\$1,013	(1.237)
313378PN5	FEDERAL HOME LOAN BANK	\$1,000	1.270%	3/2/17	BULLET	None	\$16,733	1.12%	4.42		4.41	3.21	\$900	\$1,046	(1.982)
3133XXCV7	FEDERAL HOME LOAN BANK	\$1,000	3.625%	3/10/17	BULLET	None	\$89,362	2.78%	4.44		4.43	3.09	\$994	\$1,148	(1.930)
313378W56	FEDERAL HOME LOAN BANK	\$1,000	2.000%	4/24/17	ONETIME	4/24/14	\$4,621	0.70%	4.57	1.56	1.56	1.02	\$928	\$1,028	(1.399)
313370SZ2	FEDERAL HOME LOAN BANK	\$1,000	2.250%	9/8/17	BULLET	None	\$17,614	1.29%	4.94		4.93	3.71	\$924	\$1,093	(1.745)
313378XJ5	FEDERAL HOME LOAN BANK	\$1,000	1.000%	10/27/17	ONETIME	10/27/14	\$9,931	1.00%	5.08	2.07	2.06	1.61	\$893	\$1,015	(2.228)
313372LU6	FEDERAL HOME LOAN BANK	\$2,000	4.000%	2/28/18	ONETIME	2/28/13	\$14,983	1.82%	5.42	0.41	0.41	0.23	\$2,006	\$2,034	(0.345)
313372LY8	FEDERAL HOME LOAN BANK	\$2,000	2.150%	2/28/18	ONETIME	2/28/14	\$44,894	2.14%	5.42	1.41	1.41	0.83	\$1,935	\$2,051	(1.095)
313371EC6	FEDERAL HOME LOAN BANK		1.500%	10/29/18	ONETIME	4/29/13	\$9,890	1.50%	6.08	0.58	0.57	0.33	\$1,844	\$2,012	(0.472)
313376NF8	FEDERAL HOME LOAN BANK	\$2,000	3.000%	6/27/19	ONETIME	12/27/13	\$15,808	0.99%	6.74	1.24	1.23	0.72	\$1,867	\$2,070	(0.968)
313379VC0	FEDERAL HOME LOAN BANK	\$2,000	0.750%	6/27/19	ONETIME	6/27/14	\$14,196	0.75%	6.74	1.74	1.73	1.48	\$1,735	\$2,022	(2.203)
3133782L4	FEDERAL HOME LOAN BANK	\$1,000	1.000%	8/28/19	ONETIME	2/28/14	\$3,600	1.00%	6.91	1.41	1.41	2.64	\$837	\$1,007	(4.676)
3133XWDP1	FEDERAL HOME LOAN BANK	\$500	2.500%	1/7/20	ONETIME	1/7/13	\$2,848	2.49%	7.27	0.27	0.26	0.15	\$499	\$503	(0.230)
313379K24	FEDERAL HOME LOAN BANK	\$1,000	1.000%	6/11/20	ONETIME	6/11/15	\$1,130	1.00%	7.70	2.7	2.69	2.56	\$832	\$1,009	(3.578)

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313380QE0	FEDERAL HOME LOAN BANK	\$2,000	2.000%	9/25/20	ONETIME	9/25/14	\$0	1.00%	7.99	1.99	7.98	3.86	\$1,641	\$2,060	(5.697)
Agency Total:		\$33,000	2.312%				\$584,749	1.55%	4.68		2.12	1.40	\$31,050	\$34,200	(1.662)

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